

## INTRODUCTION

### **Background**

Massachusetts Bay Community College (MBCC) is one of 25 higher educational institutions in Massachusetts that are organized under Chapter 15A, Section 5, of the Massachusetts General Laws. MBCC is a two-year public community college with approximately 3,200 students in day programs and 2,000 in continuing education evening courses. MBCC is under the oversight of the Board of Higher Education, which is responsible for monitoring each educational institution to ensure that state funds support measurable performance, productivity, and results. MBCC is governed by a Board of Trustees, which establishes MBCC's administrative policies, and MBCC's president is responsible for implementing the policies set by the Board of Trustees.

For the period July 1, 1998 through November 30, 1999, MBCC expenditures from its nonappropriated trust funds totaled approximately \$2,847,875. Appropriated funds expended during this period totaled approximately \$32,388,846. Appropriated funds are utilized for employee salaries, benefits, various supplies, furniture and equipment, and the operational expenses needed to run MBCC on a daily basis. Nonappropriated trust funds are raised by tuitions, fees, fines, grants, interest income, and various miscellaneous activities. Expenditures of appropriated funds are controlled by various General Laws, as well as policy and procedure documents issued by the Secretary of the Executive Office for Administration and Finance or any office under its jurisdiction and the Office of the State Comptroller. However, nonappropriated trust funds may not be subject to all of the controls, rules, and regulations applicable to appropriated funds.

Trust funds are used to complement state appropriations in order to ensure sufficient funding for an institution's total needs. Typically, trust funds are used in connection with a variety of campus activities, such as auxiliary enterprises (e.g., student housing, bookstores, food services), student activities, financial aid, medical services, and research. Funds are received from many sources, including some that are subject to controls established by the funding entities. For example, funds received from the federal

government are subject to regulations issued by the grantor agency. However, when external regulations are not imposed, MBCC's Board of Trustees is responsible for establishing and monitoring the controls over the expenditure of trust funds.

On February 17, 1984, Massachusetts Bay Community College Foundation, Inc., was established under the authority of Chapter 180, of the Massachusetts General Laws. The Foundation is a nonprofit corporation whose purpose is to raise funds for aiding and participating in the development and improvement of the MBCC. The purposes of the Foundation are promoted through educational and research programs directed towards individuals, organizations (private and governmental), and the community. The Foundation operates primarily in Massachusetts and receives most of its revenues from corporate donations and a matching incentive program sponsored by the Commonwealth of Massachusetts.

Our audit was initiated as a result of a Chapter 647 report filed by MBCC with the Office of the State Auditor (OSA). The MBCC report indicated that an employee improperly processed a check to herself in the amount of \$3,998.97. Chapter 647 requires the OSA to determine the internal control weaknesses that contributed to or caused an unaccounted for variance, loss, shortage, or theft of funds or property; make recommendations that address the correction of the condition found; and identify the internal control policies and procedures that need modifications.

During the course of our field work, MBCC filed another Chapter 647 report with the OSA. The MBCC reported that, contrary to the Office of State Comptroller's Fiscal Year 1999 Closing Instructions, a contractor was paid \$10,285 in advance for services that were subsequently provided over a six-month period.

Additionally, our prior audit report (No. 96-5196-3) on certain activities of MBCC identified several significant issues regarding internal controls; questionable costs; and compliance with various state and federal laws, rules, and regulations. Our prior audit report recommended that MBCC management take the necessary corrective action by developing the necessary internal control structure that would ensure

that expenditures are supported, reasonable, and in compliance with applicable state and federal laws, rules, and regulations.

In April 1999, the MBCC Board of Trustees hired a new President. Subsequent to his appointment, considerable efforts have been directed to ensure that MBCC has adequate fiscal and administrative internal controls. The recommendations in this report are intended to assist the new administration in implementing and enhancing its internal control structure and fiscal operations to ensure that they are adequate and that the MBCC is run in an economical, effective, and efficient manner and in compliance with all applicable laws, rules, and regulations.

#### Audit Scope, Objectives, and Methodology

In accordance with Chapter 11, Section 12, of the General Laws and Chapter 647 of the Acts of 1989, we have conducted a review of MBCC's financial activity for the period July 1, 1998 to November 30, 1999. Our review was conducted in accordance with applicable generally accepted government auditing standards for performance audits issued by the Comptroller General of the United States. MBCC's financial activity and its compliance with applicable laws, rules, and regulations are the responsibility of its management.

The purpose of our review was to determine (1) the internal control weaknesses that contributed to or caused an unauthorized check disbursement by an employee and an advance payment to a vendor, (2) the status of MBCC's implementation of the recommendations contained in our prior audit report, (3) whether the MBCC has a formal system for establishing and overseeing annual departmental budgets, and (4) whether MBCC's internal control structure is suitably designed and implemented to achieve the control objectives.

To meet our objectives, our review procedures consisted of the following:

- Study and evaluation of the management controls and the flow of transactions through the MBCC administrative and accounting systems.
- Review of the selected transactions at MBCC over revenues, expenditures, payroll, budgets, and contracts to evaluate their completeness and compliance with established criteria.

- Other audit procedures, including tests for compliance with applicable laws, rules, and regulations that may have a material effect upon MBCC's financial activities.
- Interview with key administrators at MBCC.

Based upon our review, we have determined that, except as noted in the Audit Results section of this report, MBCC has maintained its accounting records in accordance with prescribed requirements, has an internal control structure that is suitably designed and implemented to adhere to the control objectives, and has complied with applicable laws, rules, and regulations for those areas reviewed.

## AUDIT RESULTS

### **1. Inadequate Internal Control Procedures Resulting in Check Disbursement Improprieties**

In accordance with Chapter 647 of the Acts of 1989, Massachusetts Bay Community College (MBCC) reported to the Office of the State Auditor (OSA) two instances of check disbursement improprieties. We determined that, because internal control deficiencies exist in MBCC's manual check preparation process, an employee was able to process a check payable to herself in the amount of \$3,998.97. Additionally because MBCC did not have adequate management controls over its contract procurements and payments, a contractor was paid \$10,285 in advance for services that were subsequently provided over a six-month period. These two instances are detailed as follows:

#### **a. Employee Theft of Funds:**

Our review of MBCC noted that it is responsible for generating automated checks from the local trust funds to cover items approved by the Board of Trustees. However, there are instances when manual checks need to be generated outside of MBCC's automated system (e.g., authorized registration for conferences and certain entertainment that requires prompt payment).

MBCC's accounts payable bookkeeper informed the MBCC Comptroller that she needed three manual checks in order to make payments to three vendors for goods and services, and provided the Comptroller with the names of the payees. The Comptroller verified that the vendors' names were legitimate and that payment amounts were correct. However, the Comptroller did not notice that two of the three invoices were from the same vendor and provided the bookkeeper with the requested three manual checks. While preparing these checks for payment, the bookkeeper used one check for two of the invoices, which were payable to the same vendor. The second manual check was generated to the other vendor whose invoice was provided. The bookkeeper issued the remaining third check to herself in the amount of \$3,998.97.

The bookkeeper presented to the Comptroller only two checks with the three vendor invoices and explained that she had made an error on one of the three checks but that she was able to combine two of

the invoices on one check because the vendor was the same. The bookkeeper stated that she had destroyed the check containing the error. Since MBCC does not maintain an inventory for these manual checks, no notation was made nor was the purported destroyed check retained. As a result of the weaknesses in internal controls regarding MBCC's disbursement process for manual checks, this former employee was able to issue herself a check for \$3,998.97 and the condition remained unnoticed for approximately three and a half months.

According to MBCC's "Business Office Internal Policies and Procedures Manual", manual checks must be hand signed. Contrary to this established control procedure, the Comptroller would periodically utilize the Finance Director's signature stamp as final authorization on manual checks.

Our review of MBCC noted that, in such cases where the Finance Director is not immediately available to manually sign checks, the Comptroller has the authority and custody of the Finance Director's signature stamp. Specifically, in this instance, the bookkeeper asked the Comptroller to use the signature stamp to sign the two checks. The Comptroller removed the signature stamp from a locked drawer in her office, affixed the signature stamp to the checks, and returned the signature stamp to the Comptroller's desk but did not lock the drawer. While the Comptroller left her office for a brief moment, the bookkeeper entered the Comptroller's office, removed the stamp from the Comptroller's unlocked drawer, and affixed the signature stamp to the check made payable to herself. Subsequently, this stolen check was cashed and cleared MBCC's bank.

This bookkeeper subsequently intercepted the bank statement from the incoming mail and removed the cancelled check made payable to herself from the bank statement. When the bank reconciliation clerk attempted to reconcile this account, she noticed that check number 56632 in the amount of \$3,998.97, which cleared the bank, was missing. The clerk also noticed that the check referenced above was not recorded in MBCC's accounting records. Subsequently, at MBCC's request, the clerk was able to obtain a copy of the cancelled check from the bank. The clerk examined the cancelled check and determined that the check was made payable to the accounts payable bookkeeper. MBCC investigated this situation

and the Comptroller immediately notified the Finance Director. The accounts payable bookkeeper resigned and paid back the \$3,998.97.

Our review indicated that there were weaknesses in MBCC's structure of internal controls regarding MBCC's preparation of manual checks and also the untimeliness of bank statement reconciliations that allowed the theft of these funds to occur. These weaknesses are as follows:

- ***Utilization of signature stamps.*** The most optimal situation would be not to have or utilize signature stamps, thereby reducing the risk of theft. Further, MBCC circumvented its Procedures Manual that requires manual checks to be manually signed.
- ***Signature stamp not safeguarded.*** In this instance, the signature stamp was affixed to the check, even though the Comptroller had left her office for only a brief moment. If the stamp was in a secure and locked location under the control of the Comptroller, risk would again have been reduced.
- ***No inventory of manual checks available, utilized, and destroyed.*** An inventory listing of manual checks available for use, checks utilized, and checks destroyed or voided should be maintained. Additionally, only the Comptroller or the Finance Director should have the authority to destroy checks. Had this been the case, risk would have been reduced.
- ***Untimely bank statement reconciliation.*** Since the bank statement was allowed to be opened by an unauthorized individual and was not promptly reconciled, the theft remained undetected for three and a half months.

Chapter 647 of the Acts of 1989 states that resources should be safeguarded and compared periodically to records to reduce the risk of unauthorized use or loss, as follows:

Access to resources and records is to be limited to authorized individuals as determined by the agency head. Restrictions on access to resources will depend upon the vulnerability of the resource and the perceived risk of loss, both of which shall be periodically assessed. The agency head shall be responsible for maintaining accountability for the custody and use of resources and shall assign qualified individuals for that purpose. Periodic comparison shall be made between the resources and the recorded accountability of the resources to reduce the risk of unauthorized use or loss and protect against waste and wrongful acts. The vulnerability and value of the agency resources shall determine the frequency of this comparison.

MBCC officials informed us that all signature stamps have been destroyed. Manual checks are all currently being signed by the Vice President for Administrative and Student Affairs.

**Recommendation:** MBCC should continue to adhere to its current policy that requires manual checks to be manually signed. Additionally, MBCC should improve and tighten its overall internal

control systems covering all financial activities. Specifically, the MBCC should utilize inventory listings of manual checks and ensure that bank account reconciliations are performed in a timely manner.

**Auditee's Response:**

MBCC agrees with these recommendations. On February 15<sup>th</sup>, 2000 all signature stamps were destroyed. Live signatures are now required on all checks. At some point in the future, the College will be upgrading the software and printers that are used to generate checks. When this upgrade is implemented it will include signatures that are password protected and embedded within the software. The signature would be printed on the check at the time the check is printed by the system. Additional signatures would continue to be necessary for checks greater than \$5,000. Consideration will also be given to lowering the threshold from \$5,000 to \$3,000 for the requirement for a second signature.

The use of inventory logs for all checks issued was implemented in May 2000. Each time a check or series of checks are issued, an entry is made to the log and the issuer signs to authorize the transaction. Only specified employees are authorized to issue checks. Timely bank reconciliations have become a priority for the department and changes will shortly be implemented which places direct accountability for this task with only one individual, rather than a shared responsibility which existed in the past.

The College is in the process of recruiting a new Controller, Assistant Controller and two staff accountants. We are also in the process of implementing a separate purchasing operation. A new Manager of Student Accounts was recently hired. During the course of the next fiscal year the College will be making an extensive evaluation of its current internal controls, policies and procedures as they relate to the fiscal operations. All fiscal office employees will be required to attend the OSC's internal control training.

**b. Contractor Paid \$10,285 Prior to Services Being Rendered:** For the period July 1, 1998 to June 30, 1999, MBCC entered into a contract agreement with Wellesley Trucking Service Inc., (WTS) for rubbish removal at the Wellesley and Framingham campuses. According to the Commonwealth of Massachusetts Standard Contract between MBCC and WTS, WTS would provide services not too exceed \$31,250. For fiscal year 1999, MBCC encumbered this amount for the WTS contract. However, the contract terms did not specify what services would be provided, how often those services would be provided, or what the actual costs of the services would be. Although the Commonwealth of Massachusetts Standard Contract contains attachments that should be completed in order to determine the specific services to be provided as well as the applicable costs, attachments to the WTS contract were not filled out. A current MBCC official could not explain why this occurred because this official was not responsible for the management of the contract at that time.



The Office of the State Comptroller's (OSC) Internal Control Guide for Departments, Section 7B, requires state agencies to establish control objectives and control activities for receipt of contract services, as follows:

Designate an individual to verify receipt for services before authorizing payment for the services. These two responsibilities should not be held by the same individual....Verification should include: clerical accuracy; meeting of contract guidelines; payments made for contracted amounts; payments are for acceptable quality services; and payments are made only for services that have been rendered already.

However, contrary to the OSC's requirements, MBCC did not have adequate segregation of duties, since the former MBCC employee that was responsible for the contract award totaling \$31,250 also approved all fiscal year 1999 WTS invoices for payment. In addition, payments made to WTS were not verified to the contract terms because the terms were not specified. Finally, because vendor invoices were not verified to ensure that payments were only for services that had already been provided, this individual was allowed to pay WTS \$10,285 for services not provided.

During the contract period, WTS billed MBCC monthly for rubbish services rendered at the Wellesley and Framingham campus locations. WTS remitted two separate invoices monthly for each campus location with the daily cost per pick up remaining constant at \$47 for both campuses and a monthly service container charge of \$20 per campus. WTS billed and was paid \$19,421 for rubbish services provided between July 1, 1998 to May 31, 1999. The actual WTS invoices for the month ending June 30, 1999 totaled \$1,544. However, MBCC had previously encumbered a total of \$11,829 because that was the remaining amount on the contract.

For the Commonwealth's fiscal year-end closing date of June 30, 1999, the OSC requires all state agencies to encumber only funds for services that have been rendered or goods that have been delivered. The MBCC reserving \$10,285 for WTS prior to the provision of services is contrary to the OSC's Fiscal Year 1999 Closing Instructions, which stipulate that goods and services must be received in the respective department locations no later than June 30<sup>th</sup> to be charged to fiscal year 1999.

Had MBCC not improperly reserved the excess \$10,285, it would have reverted back to the general fund for fiscal year 1999. According to MBCC officials, the former MBCC individual responsible for the

WTS contract did not want these funds to revert back to the Commonwealth at fiscal year end. As a result, in August 1999, WTS was paid \$1,544 for services delivered and \$10,285 for services not delivered.

Consequently, WTS continued to provide rubbish services after the contract expiration date of June 30, 1999. We reviewed all WTS monthly invoices for the period July 1999 through December 1999, which totaled \$10,392. WTS used the \$10,285 as a credit balance from which to apply monthly invoice totals. As of December 31, 1999, we calculated that MBCC owed a balance of \$107 to WTS for routine weekly rubbish removal. As of March 2000, MBCC had not paid this balance.

During our audit, MBCC notified both the OSC and the OSA of this Chapter 647 issue. The OSC instructed MBCC to disburse \$10,285 from its non-appropriated trust funds and remit this amount back to the state, which MBCC did on February 23, 2000. The \$10,285 will be reported as a reduction on MBCC's fiscal year 2000 maintenance appropriation statement.

**Recommendation:** MBCC should:

- Ensure that all contracts awarded are properly executed and include attachments that define the scope and costs of services to be provided that would support the contract award amount.
- Implement control procedures as outlined in the OSC's Internal Control Guide. Segregation of duties over the contract award, approval, and contract payments must be enforced.
- Adhere to the OSC's Fiscal Year Closing Instructions. MBCC should establish adequate control measures to ensure that only actual fiscal year-end payables are encumbered (reserved) on June 30. Funds must be allowed to elapse and be returned to the State on June 30 if services have not been provided.

**Auditee's Response:**

MBCC agrees with these recommendations. As was noted in the College's prior response, we are in the process of implementing a separate purchasing operation. All necessary contract requirements will be followed. Internal controls will be implemented where necessary and appropriate. Segregation of duties will be established as they relate to contract award, approval, and payments.

Every effort will be made to ensure that the College adheres to the OSC's fiscal year closing instructions. We believe that all of the facts and circumstances that allowed the noted Chapter 647 violations to occur have been rectified. We believe that these new control measures will ensure that all disbursements will be supported by services which were performed during the

appropriate fiscal year. Additionally, any funds remaining will lapse as required by state statute.

## **2. Status of Prior Audit Results**

Our prior audit report of MBCC identified several significant issues regarding internal controls; questionable costs; and compliance with various state and federal laws, rules, and regulations. Based upon our follow-up review, we determined that MBCC has taken adequate corrective action on all but one of the prior issues, as described below.

**a. Improvements Needed in Justifying and Documenting Expenditures for Travel and Meals (Partially Resolved):** Our prior report disclosed that MBCC incurred questionable expenditures totaling \$131,728 from its Operational Contribution Trust Fund (OCTF) for travel charges of \$120,900 and improper meal charges at local area restaurants of \$10,828. These disbursements were questionable because they did not show a clear relationship to MBCC's mission, did not denote a clear business purpose, did not clearly document participants, and were not consistent with guidelines set forth by the Board of Higher Education's (BHE) "Standards for the Expenditures of Trust Funds." Our prior audit recommended that MBCC establish and implement the necessary internal controls to ensure the adequate and proper administration of travel, meals, and other expenditures from its trust fund accounts.

Our follow-up review revealed that MBCC's prior administration had not implemented adequate internal controls to ensure the propriety of travel expenditures from its trust funds. For the period of our review, MBCC incurred travel costs totaling approximately \$228,734 from its trust funds. We selected 20 travel transactions for this period totaling \$16,576. Based on our review of these transactions, we determined that adequate control procedures were still not in place to substantiate that travel costs were valid and incurred for MBCC business-related purposes in conformance with applicable guidelines. Specifically, we determined that control procedures did not exist to properly account for payments made to the Athletic Director, and that procedures did not exist to ensure that credit card purchases made by MBCC officials were adequately supported and business related. In addition, we determined that payments made to a local travel agency were often based only on a MBCC purchase order without

confirmation from the travel agency. Further, employees were not required to submit verification (i.e., actual ticket or hotel bill) that the travel actually occurred. MBCC's new administration has taken corrective measures regarding many of these travel-related issues, as follows:

- Payments Made to Athletic Director: Three payments totaling \$3,000 were made to MBCC's Athletic Director. These travel advance payments included meals for the various sport team members and mileage costs, including tolls, van rentals, and gasoline purchases for the travel van. When we requested supporting documentation for these advances, we were informed that no procedure existed that required the Athletic Director to account for these advances. When the Athletic Director needed additional funds, the MBCC business office would process his request without verifying that previous advance funds were fully expended and accounted for, and that any unexpended funds were returned. Although the Athletic Director maintained documentation for many of his purchases, no reconciliation procedure was required between the funds received and expended. Therefore, these advances were not fully supported and accounted for. The Athletic Director provided documentation to support approximately \$1,956 of the \$3,000 in payments selected in our review. The Athletic Director was unaware that he needed documentation to support these advances and, at times, used his own personal funds for travel-related expenses. As a result of our review, effective April 2000, MBCC's new administration established a procedure that requires all advance funds made payable to the Athletic Director be fully supported, reconciled, and accounted for. The Business Office must review the reconciliation prior to making the next payment and the maximum advance amount is now \$200.
- Credit Card Charges: During the period of our review, six MBCC officials had business credit cards. However, effective January 2000 five officials have MBCC credit cards. According to the authorization statement signed by these officials, credit card usage is restricted for MBCC business purposes. However, because the prior administration did not make the holder of the credit card responsible for documenting purchases charged monthly to their credit card, MBCC could not document that all charges were proper and business related. On June 3, 1999, the new administration issued revised travel guidelines to strengthen controls over travel expenditures, particularly credit card usage. These guidelines require the holder of the credit card to have adequate supporting documentation for all charges made each month. Our sample included a monthly credit card charge under the prior administration and a monthly credit card charge under the new guidelines. The result of our review follows:
  - (1) Documentation was not available to support \$1,950 (50%) of the total \$3,859 monthly charge incurred by the former President. Without supporting documentation, MBCC could not be assured that the \$1,950 in charges were business related. Examples of these questioned costs included a \$180 charge to a vendor named Baby Doe in Dallas; a \$225 charge to flower shop in Hato Key, Puerto Rico; and a charge of \$180 to Mill Falls in Newton, Massachusetts.
  - (2) The second transaction we selected was a payment of \$839 made after the implementation of the revised travel guidelines. These purchases were made by the current President. We determined that these credit card charges were adequately supported and documented and that the charges were identified as business related in nature.
- Atlas Travel Agency Payments: We tested three disbursements totaling \$2,081 made to Atlas Travel International. This company provided professional travel arrangements to executive staff,

faculty, and other MBCC employees who were authorized to travel to various locations on college business. Because no control procedure existed, MBCC would issue a check to Atlas Travel based solely upon an approved MBCC purchase order. Atlas Travel would not send a confirmation nor a monthly invoice indicating the charge or whether the payment was received. Additionally, no procedure existed that required MBCC employees to submit evidence (i.e., actual airline tickets, hotel bills, car rental agreements) of the trip. As a result, there was no documentation other than the MBCC purchase order to support these three payments to Atlas Travel. At our request, MBCC officials obtained the pertinent documentation from Atlas Travel to support these three payments.

MBCC officials informed us that payments will no longer be made based solely on a MBCC purchase order. Effective January 2000, the MBCC purchase order will be attached to the Atlas Travel confirmation, and after the travel is completed, the actual airline ticket or hotel bill will either be attached to the purchase order and the confirmation or attached to the employee's travel expense report.

**Recommendation:** MBCC should continue in its efforts to strengthen its internal control structure for travel-related costs. Specifically, prior to any check preparation, the MBCC Business Office should obtain and verify that supporting documentation is available and complete. Further, evidence must clearly show that all expenditures are of a business nature to be deemed appropriate.

**Auditee's Response:**

MBCC agrees with these recommendations. Internal controls will be evaluated and changed where necessary as they relate to travel related expenditures. Beginning in February 2000, no checks were signed without a thorough review of the supporting documentation. Supporting documentation must include the authorization to travel which states the business nature of the travel and is signed by both the employee requesting the travel and their associated Dean or Vice President. It also must include original receipts and/or invoices for the amounts requested.

**b. Management of the Endowment Challenge Grant Fund (Resolved):** Our prior review examined MBCC's management of the Endowment Challenge Grant Fund. Specifically, our prior review noted that fund transfers made to the Massachusetts Bay Community College Foundation, Inc., (a nonprofit corporation established by MBCC's investment committee) totaling \$1,430,115 were utilized for purposes contrary to 34 Code of Federal Regulations, Part 628. The transfer of \$1,430,115 represented \$650,000 of federal Endowment Challenge Grant funds and \$780,115 of MBCC matching funds and interest. Also, MBCC inappropriately commingled these grant funds with state-appropriated funds to cover payroll shortfalls contrary to federal regulations. Further, since the grant funds were

deposited in non-interest-bearing accounts, MBCC lost the opportunity to earn over \$25,000 of potential interest income for the fund.

Our follow-up review noted that MBCC had transferred \$1,670,950 to the Foundation. This amount represented two Endowment Challenge Grants totaling \$650,000, previously received during our prior audit period, plus the state matching grant funds of \$650,000, and accumulated interest since inception of \$370,950. The Foundation has these funds currently invested and is responsible for the administration of the grants in accordance with federal and state requirements. We also determined that there were no additional Endowment Challenge Grant receipts subsequent to the last audit period.

**c. Prevailing Wage Law (Resolved):** Our prior report disclosed that MBCC did not comply with Chapter 149, Sections 26 and 27, of the Massachusetts General Laws concerning the use of prevailing wages under its cleaning contract, which resulted in contractor employees being underpaid a total of \$15,671.

Our follow-up review of two contracts, which stipulate that the contractor is to comply with Chapter 149, of the General Laws specifically as it pertains to the prevailing wage rates, found that both contracts contain appropriate language pertaining to Chapter 149 of the General Laws. In addition, both contractors provide weekly time records reflecting employee names, hours worked, and the hourly rate of pay.

**d. Performance Bond Requirements of the Cleaning Contract (Resolved):** Our prior audit disclosed that, contrary to the terms set forth in the cleaning contract, MBCC did not obtain the required performance bond from its contractor.

Based on our follow-up review of five contracts, we determined that all contractors posted performance bonds in compliance with contractual agreements.

**e. Contractor's Payroll Record Certification (Resolved):** Our prior audit disclosed that, under the terms of MBCC's cleaning contract, there was no requirement for the contractor to submit certified weekly payroll records for contract billings totaling \$103,234. Since labor hours were the basis for contractual billing, certified payroll records are a key internal control to verify payroll billings.

Our follow-up review noted that the cleaning contractor and other applicable contractors were submitting detailed certified payroll records in accordance with the provisions of their contracts.

**f. Employment of Illegal Aliens by the Cleaning Contractor (Resolved):** Our prior report disclosed that employees of the cleaning services contractor at MBCC and employees of a Rhode Island-based contractor who worked at other Massachusetts sites used questionable Social Security numbers. The report noted at least 528 instances of questionable Social Security numbers being used by the cleaning service contractor, some of whom were assigned to MBCC.

Based on our follow-up review of contracts and other documentation maintained by MBCC, we determined that all contractors have formally agreed to abide by all existing federal and state laws.

## APPENDIX I

Chapter 647, Acts of 1989  
An Act Relative to Improving the Internal Controls within State Agencies

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Chapter 647

THE COMMONWEALTH OF MASSACHUSETTS

*In the Year One Thousand Nine Hundred and Eighty-nine*

AN ACT RELATIVE TO IMPROVING THE INTERNAL CONTROLS WITHIN STATE AGENCIES.

*Be it enacted by the Senate and House of Representatives in General Court assembled, and by the authority of the same, as follows:*

Notwithstanding any general or special law to the contrary, the following internal control standards shall define the minimum level of quality acceptable for internal control systems in operation throughout the various state agencies and departments and shall constitute the criteria against which such internal control systems will be evaluated. Internal control systems for the various state agencies and departments of the commonwealth shall be developed in accordance with internal control guidelines established by the office of the comptroller.

(A) Internal control systems of the agency are to be clearly documented and readily available for examination. Objectives for each of these standards are to be identified or developed for each agency activity and are to be logical, applicable and complete. Documentation of the agency's internal control systems should include (1) internal control procedures, (2) internal control accountability systems and (3), identification of the operating cycles. Documentation of the agency's internal control systems should appear in management directives, administrative policy, and accounting policies, procedures and manuals.

(B) All transactions and other significant events are to be promptly recorded, clearly documented and properly classified. Documentation of a transaction or event should include the entire process or life cycle of the transaction or event, including (1) the initiation or authorization of the transaction or event, (2) all aspects of the transaction while in process and (3), the final classification in summary records.

(C) Transactions and other significant events are to be authorized and executed only by persons acting within the scope of their authority. Authorizations should be clearly communicated to managers and employees and should



## APPENDIX I (Continued)

Chapter 647, Acts of 1989  
An Act Relative to Improving the Internal Controls within State Agencies

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Include the specific conditions and terms under which authorizations are to be made.

(D) Key duties and responsibilities including (1) authorizing, approving, and recording transactions, (2) issuing and receiving assets, (3) making payments and (4), reviewing or auditing transactions, should be assigned systematically to a number of individuals to ensure that effective checks and balances exist.

(E) Qualified and continuous supervision is to be provided to ensure that internal control objectives are achieved. The duties of the supervisor in carrying out this responsibility shall include (1) clearly communicating the duties, responsibilities and accountabilities assigned to each staff member, (2) systematically reviewing each member's work to the extent necessary and (3), approving work at critical points to ensure that work flows as intended.

(F) Access to resources and records is to be limited to authorized individuals as determined by the agency head. Restrictions on access to resources will depend upon the vulnerability of the resource and the perceived risk of loss, both of which shall be periodically assessed. The agency head shall be responsible for maintaining accountability for the custody and use of resources and shall assign qualified individuals for that purpose. Periodic comparison shall be made between the resources and the recorded accountability of the resources to reduce the risk of unauthorized use or loss and protect against waste and wrongful acts. The vulnerability and value of the agency resources shall determine the frequency of this comparison.

Within each agency there shall be an official, equivalent in title or rank to an assistant or deputy to the department head, whose responsibility, in addition to his regularly assigned duties, shall be to ensure that the agency has written documentation of its internal accounting and administrative control system on file. Said official shall, annually, or more often as conditions warrant, evaluate the effectiveness of the agency's internal control system and establish and implement changes necessary to ensure the continued integrity of the system. Said official shall in the performance of his duties ensure that: (1) the documentation of all internal control systems is readily available for examination by the comptroller, the secretary of administration and finance and the state auditor, (2) the results of audits and recommendations to improve departmental internal controls are promptly evaluated by the agency management, (3) timely and appropriate corrective actions are effected

## APPENDIX I (Continued)

Chapter 647, Acts of 1989  
An Act Relative to Improving the Internal Controls within State Agencies

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by the agency management in response to an audit and (4), all actions determined by the agency management as necessary to correct or otherwise resolve matters will be addressed by the agency in their budgetary request to the general court.

All unaccounted for variances, losses, shortages or thefts of funds or property shall be immediately reported to the state auditor's office, who shall review the matter to determine the amount involved which shall be reported to appropriate management and law enforcement officials. Said auditor shall also determine the internal control weaknesses that contributed to or caused the condition. Said auditor shall then make recommendations to the agency official overseeing the internal control system and other appropriate management officials. The recommendations of said auditor shall address the correction of the conditions found and the necessary internal control policies and procedures that must be modified. The agency oversight official and the appropriate management officials shall immediately implement policies and procedures necessary to prevent a recurrence of the problems identified.

House of Representatives, December 21, 1989.

Passed to be enacted,

*George F. Curran*, Speaker.

In Senate, December 22, 1989.

Passed to be enacted,

*William W. Bradley*, President.

January 3, 1990.

Approved,

*Richard J. Blumenthal*, Governor.

## APPENDIX II

Chapter 647 Awareness LetterFrom the State Auditor and the State Comptroller

## The Commonwealth of Massachusetts

Office of the State Auditor  
State House  
Boston, MA 02133

Office of the Comptroller  
One Ashburton Place  
Boston, MA 02108

June 9, 1999

Legislative Leadership  
Judicial Branch Administrators  
Elected Officials  
Secretariats  
Department Heads

The Office of the State Auditor and the Office of the State Comptroller, as with past fiscal years, will continue our efforts regarding internal controls. Chapter 647 of the Acts of 1989, An Act Relative To Improving Internal Controls Within State Agencies, establishes the minimum level of quality acceptable for Internal Control Systems in operation throughout state departments and constitutes the criteria against which Internal Control Structures will be evaluated. With the passage of this law, we began an Internal Control Campaign to educate and make all departments aware of the significant role Internal Controls have on its financial and administrative operations. A good system of Internal Controls coordinates a department's policies and procedures to safeguard its assets, checks the accuracy and reliability of the department's accounting data, promotes operational efficiency, and encourages adherence to prescribed managerial policies.

Departments have made significant progress in the area of Internal Controls. Every department has certified to the existence of documented controls in the form of an Internal Control Plan. In Fiscal Year 1999, we will be broadening the Internal Control Campaign focus. We will be reviewing and testing plans in a broader context that includes all aspects of a Department's business, programmatic operations as well as financial.

The American Institute of Certified Public Accountants defines Internal Controls as a process designed to provide reasonable assurance regarding the achievement of objectives in the reliability of financial reporting, effectiveness, and efficiency of operations and compliance with applicable laws and regulations. Internal Controls consist of the following five interrelated components.

**Control Environment** sets the tone of an organization, influencing the control consciousness of its people. It is the foundation for all other components of Internal Control, providing discipline and structure.

**Risk Assessment** is the entity's identification and analysis of relevant risks to achievement of its objectives, forming a basis for determining how the risks should be managed.

## APPENDIX II (Continued)

Chapter 647 Awareness LetterFrom the State Auditor and the State Comptroller

**Control Activities** are the policies and procedures that help ensure that management directives are carried out.

**Information and Communication** are the identification, capture, and exchange of information in a form and time frame that enable people to carry out their responsibilities.

**Monitoring** is a process that assesses the quality of internal control performance over time

Chapter 647 requires that an official, equivalent in title or rank to an assistant or deputy to the department head shall be responsible for the evaluation of the effectiveness of the departments internal controls and establish and implement changes necessary to ensure the continued integrity of the system. This should be done annually or more often as conditions warrant. Department officials responsible for internal controls should evaluate whether their departments' Internal Control Plans include the above components.

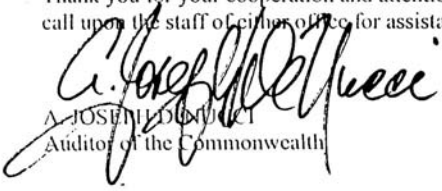
To assist Departments with this effort, we provide the following support activities:

- ♦ The Office of the Comptroller offers departments both ongoing and special internal control training upon request.
- ♦ An Internal Control Guide (due to be updated in early Fiscal Year 2000) is available on the Office of the Comptroller's Web page: <http://www.osc.state.ma.us/>.
- ♦ Upon request, the Office of the Comptroller provides assistance to departments in the process of redefining or reviewing their Internal Control Plans.
- ♦ As part of the Statewide Single Audit, auditors will review and comment upon the Internal Control Plan of any department with audit coverage.
- ♦ Single Audit testing will include increased work: test the transaction compliance with the Internal Control Plan; go beyond the plans to assess and test the plans' implementation within departments.

Chapter 647 requires that all unaccounted for variances, losses, shortages or thefts of funds or property be immediately reported to the Office of the State Auditor (OSA). The OSA is required to determine the amount involved and the internal control weaknesses that contributed to or caused the condition, make recommendations for corrective action, and make referrals to appropriate law enforcement officials. In order to comply with this law instances must be reported on the Report on Unaccounted for Variances, Losses, Shortages, or Thefts of Funds or Property and be submitted to the OSA. Reporting forms can be obtained by contacting the Auditor's office, Room 1819, McCormack State Office Building or Web Site: <http://www.magent.state.ma.us/sao/>.

The Offices of the State Comptroller and the State Auditor are committed to the goal of improving the Internal Control structure of the Commonwealth, department by department.

Thank you for your cooperation and attention on this worthwhile task. Please do not hesitate to call upon the staff of either office for assistance.

  
A. JOSEPH D'AMICO  
Auditor of the Commonwealth

  
MARTIN J. BENISON  
State Comptroller